



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*

*Michigan State Fair and Exposition Center*

*Department of Agriculture*

*October 1, 2003 through September 30, 2004*

Report Number:  
79-305-05

Released:  
March 2006

*A financial audit determines if the financial schedules are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial schedules. This financial audit of the Michigan State Fair and Exposition Center (MSFEC) was conducted as part of the constitutional responsibility of the Office of the Auditor General.*

***Financial Schedules:***

**Auditor's Report Issued**

We issued an unqualified opinion on MSFEC's financial schedules.

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**Internal Control Over Financial Reporting**

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 through 3).

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**Noncompliance or Other Matters  
Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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***Background:***

Act 361, P.A. 1978 (Sections 285.161 - 285.176 of the *Michigan Compiled Laws*), created MSFEC. The Department of Agriculture has the responsibility of conducting an annual Michigan State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 160 acres located in Detroit. The 2004 Fair was held August 11, 2004 through August 22, 2004. The Fair's reported paid attendance was 205,388.

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obtained by calling 517.334.8050  
or by visiting our Web site at:  
<http://audgen.michigan.gov>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

March 8, 2006

Mr. James E. Byrum, Chair  
Commission of Agriculture  
and  
Mr. Mitch Irwin, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Mr. Byrum and Mr. Irwin:

This is our report on the financial audit of the Michigan State Fair and Exposition Center, Department of Agriculture, for the period October 1, 2003 through September 30, 2004.

This report contains our report summary; our independent auditor's report on the financial schedules; and the Michigan State Fair and Exposition Center financial schedules, notes to the financial schedules, and supplemental financial schedule. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters; our findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General



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# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES



STATE OF MICHIGAN  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on the Financial Schedules

Mr. James E. Byrum, Chair  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Mr. Byrum and Mr. Wyant:

We have audited the financial schedules of the Michigan State Fair and Exposition Center, Department of Agriculture, for the fiscal year ended September 30, 2004, as identified in the table of contents. These financial schedules are the responsibility of the Michigan State Fair and Exposition Center's management and the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the Michigan State Fair and Exposition Center's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Michigan State Fair and Exposition Center or the State's

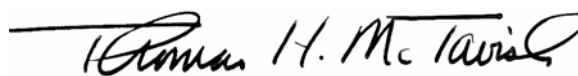
General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the Michigan State Fair and Exposition Center for the fiscal year ended September 30, 2004 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2005 on our consideration of the Michigan State Fair and Exposition Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The supplemental financial schedule, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the Michigan State Fair and Exposition Center's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a horizontal line extending to the left from the first letter.

Thomas H. McTavish, C.P.A.  
Auditor General  
June 17, 2005

MICHIGAN STATE FAIR AND EXPOSITION CENTER

Department of Agriculture  
Schedule of General Fund Revenues by Source  
Fiscal Year Ended September 30, 2004

REVENUES

Fair Revenues:

Gate admissions	\$ 1,472,033
Midway rides and games	827,951
Sponsorship	664,764
Vendor space	306,034
Parking	218,508
Premiums	211,890
Stickers, passes, and entry and stall fees	137,814
Merchandise sales	40,075
Other	51,558
Total Fair Revenues	<u>\$ 3,930,627</u>

Non-Fair Revenues:

Rental of grounds	\$ 1,427,739
Rental of buildings	240,216
Maintenance, janitorial, and utilities	130,170
Parking and camping	112,273
Gate admissions	22,558
Commissions on concessions	8,073
Sponsorship	170
Other	(1,867)
Total Non-Fair Revenues	<u>\$ 1,939,332</u>

Other Financing Sources:

Proceeds from sale of land (Note 2)	\$ 352,513
Total Other Financing Sources	<u>\$ 352,513</u>
Total Revenues	<u><u>\$ 6,222,472</u></u>

The accompanying notes are an integral part of the financial schedules.

MICHIGAN STATE FAIR AND EXPOSITION CENTER  
Department of Agriculture  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Year Ended September 30, 2004

SOURCES OF AUTHORIZATIONS (Note 3)	
Restricted financing sources	\$ 6,222,472
Unexpended from prior year	<u>3,773</u>
Total	<u>\$ 6,226,245</u>
DISPOSITION OF AUTHORIZATIONS (Note 3)	
Expenditures	\$ 5,921,998
Restricted revenues - not authorized	<u>304,247</u>
Total	<u>\$ 6,226,245</u>

The accompanying notes are an integral part of the financial schedules.

## Notes to the Financial Schedules

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Michigan State Fair and Exposition Center (MSFEC), Department of Agriculture, for the fiscal year ended September 30, 2004. The financial transactions of MSFEC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. All MSFEC revenue is classified as miscellaneous revenue in the *SOMCAFR*.

Act 361, P.A. 1978 (Sections 285.161 - 285.176 of the *Michigan Compiled Laws*), created MSFEC. The Department of Agriculture has the responsibility of conducting an annual Michigan State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 160 acres located in Detroit. The 2004 Fair was held August 11, 2004 through August 22, 2004. The Fair's reported paid attendance was 205,388.

The notes accompanying these financial schedules relate directly to MSFEC. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

#### b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred;

however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for MSFEC's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either MSFEC or the State's General Fund in conformity with generally accepted accounting principles.

Note 2 Schedule of General Fund Revenues by Source

The Department of Management and Budget (DMB) sold 34 acres of land that was used as part of the MSFEC fairgrounds for \$6.00 million. Of the total proceeds from this sale of land, DMB allocated \$5.25 million to the Department of Natural Resources (DNR) because the land was originally in a DNR land trust fund; \$397,487 to DMB for paid expenditures related to MSFEC; and \$352,513 to MSFEC.

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized.
- b. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, MSFEC had not received legislative authorization to expend the revenues.

Note 4 Subsequent Event

Act 468, P.A. 2004, transferred MSFEC to DMB as the Michigan Exposition and Fairgrounds Authority and Board effective December 2004.



# SUPPLEMENTAL FINANCIAL SCHEDULE

MICHIGAN STATE FAIR AND EXPOSITION CENTER  
Department of Agriculture  
Schedule of General Fund Expenditures and Transfers Out  
Fiscal Year Ended September 30, 2004

EXPENDITURES AND TRANSFERS OUT	
Buildings and grounds maintenance	\$ 1,930,994
Administraton and manager's office	1,490,469
Entertainment	1,093,754
Agriculture and livestock	556,412
Security	473,202
Community arts	151,067
Director	74,500
Fairs and exposition administration	61,930
Volunteers	42,242
Information technology	25,200
Miscellaneous	<u>22,228</u>
Total Expenditures and Transfers Out	<u><u>\$ 5,921,998</u></u>

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. James E. Byrum, Chair  
Commission of Agriculture  
and  
Mr. Dan Wyant, Director  
Department of Agriculture  
Constitution Hall  
Lansing, Michigan

Dear Mr. Byrum and Mr. Wyant:

We have audited the financial schedules of the Michigan State Fair and Exposition Center, Department of Agriculture, for the fiscal year ended September 30, 2004, as identified in the table of contents, and have issued our report thereon dated June 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan State Fair and Exposition Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Michigan State Fair and Exposition Center's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions are described in Findings 1 through 3.

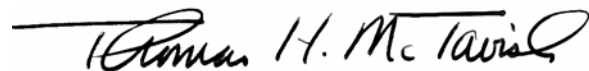
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan State Fair and Exposition Center's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Commission, the Department of Agriculture, the State's management, and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a horizontal line extending from the left side of the name.

Thomas H. McTavish, C.P.A.  
Auditor General  
June 17, 2005

**FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES**

## **FINDING**

### **1. Parking Operations**

The Michigan State Fair and Exposition Center's (MSFEC's) management needs to improve controls over the collection and remittance of parking revenue. As a result of control deficiencies, MSFEC did not have assurance that all revenue collected for parking was submitted to MSFEC's accounting office and subsequently deposited into MSFEC's bank account.

MSFEC contracts with a parking administrator to oversee the work of volunteers who sell parking permits during the Fair. Controls over parking revenue include MSFEC issuing prenumbered permits to the parking administrator in increments of 100 permits (\$500), MSFEC maintaining a log of all permits issued, and the parking administrator returning cash to MSFEC in the same increments as permits are sold. Unsold permits returned to MSFEC become a reconciling item in accounting for the sale of parking permits.

MSFEC requires permit sellers to ask patrons to visually display the parking permit on the dashboard of their vehicles. This reduces the risk that sellers could embezzle cash by providing a means to verify that patrons pay to park their vehicles and that sellers issue a parking permit for each vehicle that enters the lot. Without such oversight measures, sellers could circumvent the accountability feature by accepting cash and allowing vehicles to enter without issuing parking permits.

Our review of MSFEC's controls over parking operations disclosed the following deficiencies:

- a. MSFEC did not survey its parking lots to verify that permit sellers issued a parking permit to each patron who paid the parking fee. Such verification would help ascertain whether a permit was issued for each vehicle entering the parking lot. During our on-site review of parking operations, we inspected several rows of parked vehicles and noted numerous vehicles without a parking permit visually displayed on the dashboard. When we informed MSFEC's management of our observation, it responded that MSFEC could not force patrons to display permits on their dashboards.

- b. MSFEC did not employ sufficient measures to ensure that all patrons were aware that parking permits are to be visually displayed on the dashboard of each vehicle. MSFEC relied only on the expectation that permit sellers would ask patrons to visually display the permit and that patrons would comply if asked.

Permit sellers may be more likely to issue parking permits to patrons if the sellers are aware that MSFEC staff periodically survey the parking lots to verify that a parking permit has been issued for each vehicle. In addition, if patrons are aware of the requirement to visually display parking permits on their dashboards and the potential consequences of noncompliance, they may expect and even ask to receive a parking permit when they pay for their parking.

For fiscal year 2003-04, MSFEC recorded \$218,508 in parking revenue. However, because of the control deficiencies, MSFEC had no assurance that this amount comprised all the revenue actually received by permit sellers.

## **RECOMMENDATION**

We recommend that MSFEC's management improve controls over the collection and remittance of parking revenue.

## **AGENCY PRELIMINARY RESPONSE**

MSFEC agrees and informed us that it will comply by June 1, 2006. MSFEC indicated that it will develop and implement a plan which requires signage at each gate notifying patrons that they must properly display parking permits on their vehicles' dashboards. In addition, the parking lot flaggers will periodically survey patrons to verify that parking permits have been issued.

## **FINDING**

### **2. Vendor Space Rentals**

MSFEC needs to improve its administration of vendor space rentals. As a result of administrative deficiencies, MSFEC exposed the State to potential liabilities and did not collect all revenue from vendors who conducted business on the fairgrounds.

Department of Agriculture Fairs, Exhibitions and Racing Division Regulation No. 851 states that MSFEC shall not admit the property of an exhibitor or



concessionaire on the fairgrounds unless the exhibitor or concessionaire presents all certificates of insurance. Also, MSFEC policy requires all vendors to provide the Fair with a signed contractual agreement, certificates of insurance, and a security deposit before the opening of the annual Fair.

MSFEC rents space to vendors based on a flat rate per square foot for indoor concessions and a flat rate per linear front foot for outside concessions. Vendor space rental revenue for fiscal year 2003-04 was \$306,034 (8% of MSFEC total Fair revenues).

The 2004 Fair started on August 11, 2004. When we were performing interim audit procedures on August 12, 2004, we requested MSFEC to provide a list of all vendors conducting business on the fairgrounds, together with pertinent documents related to the regulatory and policy requirements. MSFEC could not provide the information that we requested. In addition, MSFEC could not determine if all vendors had signed contracts and had all required insurances or that all revenue for vendor space rentals was collected, recorded, and deposited into MSFEC's bank account. Our request prompted MSFEC to inventory vendors who were conducting business on the fairgrounds as of August 12, 2004. The inventory disclosed that 120 vendors were conducting business on the fairgrounds during the 2004 Fair.

We reviewed documentation that MSFEC accumulated and prepared from its August 12, 2004 inventory, the related vendor contracts, and records of revenue collected from each vendor. Our review disclosed the following deficiencies related to vendor space rentals:

- a. MSFEC did not have a contract with 4 (3%) of the 120 vendors listed on its inventory.
- b. MSFEC's management did not sign 56 (48%) of the 116 vendor contracts. One of the 56 contracts had not been signed by the vendor.
- c. MSFEC did not have evidence of liability insurance for 28 (24%) of the 116 vendors.

- d. MSFEC did not have evidence of workers' compensation insurance for 75 (65%) of the 116 vendors.
- e. MSFEC did not collect all money due from 10 (8%) of the 120 vendors by the end of the 2004 Fair. Subsequently, at the end of fiscal year 2003-04, MSFEC wrote off \$7,600 as uncollectible for 6 of the 10 vendors who owed money. Of the 6 vendor accounts that MSFEC wrote off, 1 was for a vendor who had no contract and 4 were for vendors whose contracts were not signed by MSFEC's management.

Management review and approval of all vendor space rental contracts before the start of the annual Fair would help ensure compliance with regulatory and policy requirements. Also, it would provide MSFEC with assurance that the interests of the State are protected and that vendors who conduct business on the fairgrounds are in compliance with the contract as of the start of the Fair.

### **RECOMMENDATION**

We recommend that MSFEC improve its administration of vendor space rentals.

### **AGENCY PRELIMINARY RESPONSE**

MSFEC agrees and informed us that internal controls were implemented for the 2005 Fair to ensure that signed contracts for vendor space rentals were on file at MSFEC, along with evidence of liability and workers' compensation insurance and verification of payment. Internal controls will be continually reviewed and revised as necessary.

### **FINDING**

#### **3. Cash Handling**

MSFEC needs to improve internal control\* over cash handling at its entry and administrative offices. As a result of internal control deficiencies at these locations, MSFEC lacked assurance that cash was safeguarded against loss from errors or irregularities.

\* See glossary at end of report for definition.

Our review of MSFEC's entry offices and its administrative office disclosed:

a. Entry Offices

MSFEC did not have sufficient controls at its entry offices to properly safeguard cash receipts.

MSFEC's entry offices process all exhibitor entries for agriculture (livestock, fruits, vegetables, flowers, and legumes) and community arts (arts and crafts, baked goods, etc.). The processing includes collecting and receipting exhibitor fees and ensuring that exhibitors receive premiums\* and other recognitions for outstanding entries. These entry offices utilize a database system to record exhibitor entries and the related cash receipts.

State of Michigan Financial Management Guide Part II, Chapter 9, Section 100 states that if a cash register or validating machine is unavailable, a prenumbered cash receipt should be used. Also, cash receipts retained on site must be stored in a secure location, i.e., a safe or a locked file cabinet. Further, sound internal control over cash requires an audit trail for all transactions.

During the 2004 Fair, all 7 staff in the agriculture entry office processed entries and accepted cash while utilizing the same cash till, which was kept in an unlocked drawer. Also, the database system did not require the use of passwords or user codes and the system allowed employees to postedit records of exhibitor entries and cash receipts without leaving a postedit audit trail.

During fiscal year 2003-04, MSFEC deposited \$128,684 in cash receipts that it received from its entry offices. However, because of the previously mentioned internal control deficiencies, MSFEC could not ascertain whether this amount comprised all the revenue received by the entry offices.

\* See glossary at end of report for definition.

b. Administrative Office

Our review of administrative office cash handling practices disclosed:

- (1) MSFEC did not ensure that adequate segregation of duties existed in administrative office cash handling operations. The same person who handled cash also prepared cash deposits, made accounting entries, and performed reconciliations of cash receipts.

The administrative office is a central depository for cash received from MSFEC's various operations. Cash received is recorded and subsequently deposited into MSFEC's bank account.

Section 18.1485 of the *Michigan Compiled Laws* (a section of Act 431, P.A. 1984, as amended) states that each department shall have a plan of organization that provides separation of duties and responsibilities among employees. Allowing one person simultaneous access to cash and cash records increased MSFEC's risk that theft could occur and not be detected in a timely manner.

During fiscal year 2003-04, MSFEC's administrative office deposited \$5,869,959 in cash receipts. However, because of the previously mentioned internal control deficiencies, MSFEC could not ascertain whether this amount comprised all the revenue received from its various operations.

- (2) During the 2004 Fair, MSFEC cashed a total of \$223,651 in third party checks for entertainers who performed at the Fair. MSFEC entered into an agreement with its entertainment contractor to cash the contractor's checks for the entertainers. Cashing third party checks unnecessarily exposes the State to financial loss resulting from insolvency of the contractor. Also, this practice resulted in MSFEC needing more cash on hand than was necessary for the operation of the Fair.

The internal control weaknesses over cash handling at the entry and administrative offices increased MSFEC's risk that errors or irregularities could occur and not be detected in a timely manner and decreased MSFEC's ability to determine the responsibility for a resulting loss.

## **RECOMMENDATION**

We recommend that MSFEC improve internal control over cash handling at its entry and administrative offices.

## **AGENCY PRELIMINARY RESPONSE**

MSFEC agrees and informed us that it has reviewed the cash handling procedures and will implement improved internal controls.

MSFEC also informed us that:

- It will review the cash handling process at the entry offices in a continuing effort to improve internal controls. Additional internal controls and procedures are being developed for the MarTech program.
- All receipts issued are verified and reconciled to third party documentation. Procedures will be implemented to better document this reconciliation process.
- Its business relationship with the entertainment contractor is typical of industry standard. MSFEC has ceased issuing third party checks as of the 2005 Fair. MSFEC will utilize manual warrants and minimize the amount of warrants required. Procedures have been implemented to document this process of utilizing manual warrants.

# GLOSSARY

## Glossary of Acronyms and Terms

DMB	Department of Management and Budget.
DNR	Department of Natural Resources.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MSFEC	Michigan State Fair and Exposition Center.
premiums	Cash prizes awarded for exhibits or to exhibitors.

reportable condition                      A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.

*SOMCAFR*                                      *State of Michigan Comprehensive Annual Financial Report.*

unqualified opinion                      An auditor's opinion in which the auditor states that:

- a.    The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b.    The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves.





